COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE IMPACT OF THE FEDERAL ENERGY REGULATORY COMMISSION'S ORDER 636 ON KENTUCKY CONSUMERS AND SUPPLIERS OF NATURAL GAS	)))))	ADMINISTRATIVE CASE NO. 346

O R D E R

IT IS ORDERED that local distribution companies ("LDCs") and any other party wishing to address these issues shall file an original and 12 copies of responses to the following requests for information within 25 days of the date of this Order.

1. Describe the LDC's experience during the 1993-94 heating season. Specifically include the following:

a. What were peak day sales requirements?

b. What were peak day transportation requirements?

c. What were peak day sources of supply?

d. What problems did the LDC experience with its suppliers of gas?

e. How often was customer-owned gas used to meet peak day supply? How many customers and in what volumes?

f. Was pipeline capacity sufficient to the citygate to meet all sales and transportation demands without interruption on the distribution side? If not, how were these demands met and/or reduced?

g. Was distribution capacity sufficient to meet all sales and transportation demands without interruption? If not, how were these demands met and/or reduced?

h. Were residential customers interrupted?

i. Were non-residential firm sales customers interrupted?

j. Were interruptible sales customers interrupted?

k. Were firm transportation customers interrupted?

l. Were interruptible transportation customers interrupted?

m. What was the longest period of interruption?

n. Were the interruptions in accordance with the provisions for interruption outlined in the tariffs on file at the Commission?

2. What was the LDC's load factor during the periods May 1, 1993 through September 30, 1993 and October 1, 1993 through April 30, 1994?

3. Describe what programs or actions the LDC has considered or taken regarding load shifting, load building, or rate design changes to fill any valleys or level any peaks in its load during the past five calendar years (1990 through 1994).

4. Should LDC gas supply contracts be held confidential in whole or in part and why?

5. Who benefits and who is at risk from confidentiality of gas supply contracts?

6. Who benefits and who is at risk from public disclosure of gas supply contracts?

7. If confidentiality of gas supply contract information is granted, should it be permanent or for some stated period of time?

8. Are minimum volume requirements for transportation conducive to an open access transportation policy?

9. Should minimum volume requirements for transportation be abolished? Why?

10. What incremental costs are involved in offering transportation service to loads smaller than the currently approved minimums?

11. What are the advantages/disadvantages of a case-by-case approach to approving minimum volume requirements as opposed to approving a generic requirement for gas transportation?

12. How might a reasonable generic minimum be determined?

13. Theoretically, how small a load is too small for gas transportation?

14. How can an LDC maximize its firm pipeline capacity?

15. What are the advantages/disadvantages of capacity release?

16. Can innovative sales services targeted at large-volume transportation customers be as valuable to those customers as capacity release?

17. Is it reasonable for LDCs to hold year-around reserve margins of capacity?

a. What is a reasonable capacity reserve margin?

b. How might it vary seasonally?

c. How might it be affected by storage injections/ withdrawals?

d. How is interruptible capacity considered in determining a capacity reserve margin?

18. Describe how the LDC is accounting for capacity it has had assigned to it. Include the accounting entries made to recognize the assignment.

a. How is the LDC valuing assigned capacity?

19. How does the LDC propose to account for any revenues and/or purchases of released capacity? Include sample accounting entries for both the sale and purchase of capacity.

20. Are incentive mechanisms appropriate for capacity release? Describe.

21. What are the advantages/disadvantages of release or assignment of storage capacity?

22. What is the most appropriate method of pricing released capacity?

23. To the extent the LDC has had unused firm capacity on an interstate pipeline, has the LDC "marketed" any of its capacity to any of the LDC's large volume end-users prior to releasing such capacity through the pipeline's capacity release program? Have any of these customers proposed such a service to the LDC?

24. What obligation should an LDC have to provide sales service to a customer that has chosen transportation service?

25. What obligation should an LDC have to provide sales

service to a customer that has switched to an alternate form of energy?

26. Should sales of system supply gas to transportation customers be made through standby or agency services only?

27. What are the advantages/disadvantages of combination services (i.e., transportation service with the underlying right to "swing" back onto sales service)?

28. Should a transportation customer be able to acquire firm transportation capacity on the LDC's system without a requirement to pay for standby gas supply or have an alternate fuel backup?

29. Should all transportation customers classified as human needs be required to have an alternate fuel backup or be required to contract with the LDC for some level of gas supply in order to qualify for transportation on the LDC?

30. Should transportation customers classified as human needs be required to have firm delivery to the citygate in order to qualify for transportation on the LDC?

31. Should a transportation customer be able to acquire interruptible transportation capacity on the LDC's system without a requirement for any type of standby or backup supply?

32. Should the LDC be required to verify that an interruptible customer either has alternate fuel options or that it can withstand interruption? For what types of customers, if any?

33. Is inclusion in the utilities' tariff adequate or should interruptible contracts also address such issues as interruption

due to supply versus capacity constraints, compensation for use of customer-owned gas, etc?

34. In Administrative Case No. 297,[1] the Commission outlined priorities of service finding that, in general, firm sales and firm transportation should always be awarded a higher priority than interruptible sales and interruptible transportation. The Commission further stated,

> It is reasonable that when a supply shortage develops, the one using that supply should be curtailed. If the shortage is in sales system gas supply, then the sales customers should be curtailed in order of priority given in approved curtailment procedures. If the supply shortage is in gas which the LDC merely transports, then the transportation customer or customers whose supply is diminished should be curtailed.
>
> Should the need for curtailment arise because of facility constraints, firm customers--be they sales or transportation--should have priority over interruptible customers. Within this division, priority should be assigned as in the company's approved curtailment procedures.

Are these priorities of service consistent with customers' expectations in today's gas industry?

35. Do LDCs have the ability in place to know at any point in time, where the gas is coming from at each citygate delivery point and for whom that gas is being delivered?

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[1] Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers, Order dated May 29, 1987.

36. Under what circumstances might an LDC not deliver a transportation customers' gas which reaches the citygate?

37. In response to the Commission's June 8, 1993 Order, non-LDC marketing/consulting companies raised the issue of an unlevel playing field between themselves and LDCs in competing for large volume end-user sales and transportation services. In particular, the issue of cross-subsidization of costs was mentioned: between an LDC and its marketing affiliate; or, in the absence of an affiliate, with LDC personnel who perform marketing functions to serve large volume end-users with related costs being recovered from all ratepayers.

a. Should an LDC and its marketing affiliate be required to separately maintain revenues and expenses related to sales versus transportation services? How?

b. Should an LDC and its marketing affiliate be required to separately maintain revenues and expenses related to serving large volume end-users versus residential/small commercial customers? How?

c. Should an LDC without a marketing affiliate separate revenues and expenses related to serving large volume end-users from revenues and expenses incurred to serve the residential/small commercial market?

38. Should there be a rebuttable presumption that competition exists in gas sales service to large volume end-users and the existing regulation of such service be removed or replaced? Explain.

39. Describe the impact on the LDC of combining multiple delivery points on the LDC into a single delivery point for purposes of nominations and qualifying for transportation on the LDC.

40. Recently enacted House Bill 501 enables a utility to propose demand-side management ("DSM") plans which include the recovery of DSM costs, revenues lost due to DSM programs, and financial incentives. Explain whether this statute removes the disincentives for engaging in DSM programs that may have existed prior to its enactment.

41. In response to Item 48 of the Commission's June 8, 1993 Order, The Union Light, Heat and Power Company ("ULH&P") stated,

> Furthermore, given current pipeline capacity, reducing gas usage on both a peak day and annual basis through conservation may simply cause the fixed costs for pipeline transportation to be re-allocated over a smaller volume thus requiring higher rates.

a. Explain whether the statement posed by ULH&P describes a short-term or long-term situation.

b. Describe the process and likelihood of gas utilities reducing their contract demand by amounts equal to actual or projected reductions in customer gas usage resulting from the implementation of cost-effective DSM programs.

c. Describe any means by which the LDC might defray the reallocation of fixed costs.

42. Describe how a gas utility will determine and demonstrate the cost-effectiveness of proposed DSM programs under the following scenarios:

a. DSM programs are developed and evaluated within an integrated resource planning process.

b. DSM programs are developed and evaluated outside of an integrated resource planning process.

43. Explain whether it is reasonable to develop and evaluate DSM programs outside of a long-term integrated resource planning process, in which all supply-side and demand-side resource options are considered.

44. Section 115 of the Energy Policy Act of 1992 requires the Commission to consider the implementation of two federal standards by gas utilities: integrated resource planning and investments in conservation and demand management. A copy of this section is appended to this Order.

a. Discuss fully whether or not the Commission should implement these standards.

b. Explain how the recent enactment of House Bill 501 affects the need to implement these standards in Kentucky.

45. With the unbundling of services in the natural gas industry, is it possible that some cost savings from a particular DSM program may not entirely flow through to the LDC? If yes, how should this be addressed in the cost-effectiveness tests of proposed DSM programs?

46. Explain how a gas utility's avoided costs should be estimated.

47. Describe cost-effectiveness tests that should be used to evaluate potential DSM programs.

48. For calendar year 1993, list each storage field owned by the LDC by name and location (county); and for each month, list the amount of gas (Mcfs) injected and withdrawn.

49. What months define the injection and withdrawal periods?

50. For each field, provide the total amount of gas injected during the most recent injection period completed; the amount of working gas available on the first day of the withdrawal period; and the percentage difference between the two amounts.

51. For each field, provide the ending balance (Mcfs) at the conclusion of the most recent withdrawal period completed, and the percentage of working gas at that point in time represented by the ending balance.

52. During the most recent withdrawal period, were the LDC's lines which connect each of the storage fields to the distribution system at capacity each day? If not, what was the average capacity on the lines per day and per month (by group per storage field)?

53. During the most recent injection period, were the LDC's lines which connect each of the storage fields to the distribution system at capacity each day? If not, what was the average capacity on the lines per day and per month (by group per storage field)?

54. This question shall be answered by LG&E. In response to Item 24(e) of the Commission's June 8, 1993 Order, LG&E provided the cost to operate and maintain its storage fields.

a. Why should the operation and maintenance expenses be divided by total throughput?

b. For purposes of determining storage field operation and maintenance costs, shouldn't the throughput amount be only gas which is actually cycled in and out of the storage fields? If not, why?

c. Why should throughput be limited to only withdrawals? Aren't there operations and maintenance expenses related to injection of gas into storage fields?

d. Why should transportation volumes be included in total throughput?

55. This question shall be answered by WKG. In its response to Item 17(b) of the Commission's June 8, 1993 Order, WKG stated it did not wish to reduce its interstate firm contract demand with local production since its "local production contracts . . . are unable to fully deliver at the increased pressures . . . during peak conditions."

a. How much gas did WKG purchase from Kentucky local producers during calendar year 1993? How many producers? What percentage of WKG's 1993 purchases is represented by purchases from Kentucky local producers?

b. Do contracts between WKG and Kentucky local producers allow WKG to only purchase such gas during the heating season months (October - April)?

c. What prevents WKG from purchasing gas from Kentucky local producers during the period May - September of any particular year?

56. This question shall be answered by WKG. In response to Item 24 of the Commission's June 8, 1993 Order, WKG provided certain information related to its gas storage fields. WKG described the use of Kirkwood Springs as serving Princeton, Dawson Springs, and Cadiz during "extreme load requirements."

a. Explain why the injection/withdrawal amounts were so low during 1991 and 1992.

b. Does the difference between the field's working capacity (223,000 Mcfs) and its withdrawal/injection levels during 1991 and 1992 mean the field is under utilized?

c. Provide the derivation for the $0.08/Mcf annual storage field average cost for operations and maintenance expenses.

Done at Frankfort, Kentucky, this 17th day of August, 1994.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN ADMINISTRATIVE CASE NO. 346
DATED AUGUST 17, 1994

SEC. 115. ENCOURAGEMENT OF INVESTMENTS IN CONSERVATION AND ENERGY EFFICIENCY BY GAS UTILITIES.

(a) DEFINITIONS.—Section 302 of the Public Utility Regulatory Policies Act of 1978 (15 U.S.C. 3202) is amended by adding the following at the end thereof:

"(9) The term 'integrated resource planning' means, in the case of a gas utility, planning by the use of any standard, regulation, practice, or policy to undertake a systematic comparison between demand-side management measures and the supply of gas by a gas utility to minimize life-cycle costs of adequate and reliable utility services to gas consumers. Integrated resource planning shall take into account necessary features for system operation such as diversity, reliability, dispatchability, and other factors of risk and shall treat demand and supply to gas consumers on a consistent and integrated basis.

"(10) The term 'demand-side management' includes energy conservation, energy efficiency, and load management techniques.".

(b) IN GENERAL.—Section 303(b) of the Public Utility Regulatory Policies Act of 1978 (15 U.S.C. 3202) is amended by inserting at the end the following new paragraphs:

"(3) INTEGRATED RESOURCE PLANNING.—Each gas utility shall employ, in order to provide adequate and reliable service to its gas customers at the lowest system cost. All plans or filings of a State regulated gas utility before a State regulatory authority to meet the requirements of this paragraph shall (A) be updated on a regular basis, (B) provide the opportunity for public participation and comment, (C) provide for methods of validating predicted performance, and (D) contain a requirement that the plan be implemented after approval of the State regulatory authority. Subsection (c) shall not apply to this paragraph to the extent that it could be construed to require the State regulatory authority to extend the record of a State proceeding in submitting reports to the Federal Government.

"(4) INVESTMENTS IN CONSERVATION AND DEMAND MANAGEMENT.—The rates charged by any State regulated gas utility shall be such that the utility's prudent investments in, and expenditures for, energy conservation and load shifting programs and for other demand-side management measures which are consistent with the findings and purposes of the Energy Policy Act of 1992 are at least as profitable (taking into account the income lost due to reduced sales resulting from such programs) as prudent investments in, and expenditures for, the acquisition or construction of supplies and facilities. This objective requires that (A) regulators link the utility's net revenues, at least in part, to the utility's performance in implementing cost-effective programs promoted by this section; and (B) regulators ensure that, for purposes of recovering fixed costs, including its authorized return, the utility's performance is not affected by reductions in its retail sales volumes.".

(c) IMPACT ON SMALL BUSINESS.—Section 303 of such Act is amended by inserting the following new subsection at the end thereof:

"(d) SMALL BUSINESS IMPACTS.—If a State regulatory authority implements a standard established by subsection (b) (3) or (4), such authority shall—

"(1) consider the impact that implementation of such standard would have on small businesses engaged in the design, sale, supply, installation, or servicing of energy conservation, energy efficiency, or other demand-side management measures, and

"(2) implement such standard so as to assure that utility actions would not provide such utilities with unfair competitive advantages over such small businesses.".

(d) EFFECTIVE DATE.—Section 303(a) of such Act is amended by inserting "(or after the enactment of the Energy Policy Act of 1992 in the case of standards under paragraphs (3), and (4) of subsection (b))" after "Act" and by striking out "standard established by subsection (b)(2)" in paragraph (2) and inserting "standards established by paragraphs (2), (3) and (4) of subsection (b)"

(e) REPORT.—The report under section 111(e) of this Act transmitted by the Secretary of Energy to the President and to the Congress shall contain a survey of all State laws, regulations, practices, and policies under which State regulatory authorities implement the provisions of paragraphs (3) and (4) of section 303(b) of the Public Utility Regulatory Policies Act of 1978. The report shall include an analysis, prepared in conjunction, with the Federal Trade Commission, of the competitive impact of implementation of energy conservation, energy efficiency, and other demand side management programs by gas utilities on small businesses engaged in the design, sale, supply, installation, or servicing of similar energy conservation, energy efficiency, or other demand-side management measures and whether any unfair, deceptive, or predatory acts or practices exist, or are likely to exist, from implementation of such programs.